

Deal Drivers: Brazil

A spotlight on mergers and
acquisitions trends in **Q1 2020**

COVID, business and political crises tear down upwardly-mobile Brazilian M&A

Brazilian officials spent much of 2019 drawing up and enacting the first steps in an ambitious economic reform agenda, with strict fiscal responsibility and free market principles being the new guiding lights. This far-reaching program was intended to reduce government involvement in the economy and privatize state companies.

At the time, it had a dynamic effect on dealmaking. In Q2 2019, total deal value exceeded US\$18.4bn, the second highest figure of the last three years. The following quarter, aggregate deal volume reached by far its highest mark (120) in the last three years, the next most prolific quarter before then being Q4 2018, when 101 deals were logged. In Q4 2019, deal volumes fell only marginally, to 114 transactions. But any signs of buoyancy in the market evaporated with the arrival of Q1 2020 data.

COVID-19 halts progress

The extent of the damage wrought by coronavirus on Brazil's M&A market is clear. In Q1, deal volumes declined by 39.5% from Q4 2019 to 69, the lowest tally in the last three years. Of those, 51% are yet to complete; many may be postponed or withdrawn. Their aggregate value also fell, by 35.3% to US\$4.7bn, the third lowest quarterly total in the last three years.

Data from early in Q2 indicate that worse is yet to come – just six deals worth a total of US\$69m were announced in Brazil in April, down 71.4% and 96.1% respectively from an already muted March, when 21 deals worth US\$1.7bn were logged.

Brazil's private equity (PE) market had already begun to weaken at the end of 2019. The volume of PE deals halved to 20 in Q4 from the previous quarter, while their aggregate value collapsed to US\$181m from US\$1.7bn in Q3 2019. In Q1 2020, PE deal volumes and value stayed firmly at these multi-year lows, with just seven deals worth a total of US\$175m being logged.

Coronavirus has all but eliminated any prospects of even a minor rebound in the market. That being said, in the longer term larger and well-resourced PE firms are likely to uncover valuable opportunities in Brazil, especially concerning distressed assets.



Datasite for Restructuring and Bankruptcy

Brazil M&A activity





TMT withstanding crisis better than most

Brazil's largest deal in Q1 2020 saw Hypera, the country's largest pharmaceutical company, enter into an agreement worth US\$825m to acquire a portfolio of Latin American assets belonging to Japan-based Takeda Pharmaceuticals. It was one of only three pharma, medical & biotech (PMB) transactions to crack Brazil's top-20, and the industry overall recorded 54.5% and 22.4% quarter-on-quarter declines in deal volume (to 10 from 22) and aggregate value (to US\$1.06bn from US\$1.36bn).

The TMT industry logged a similar quarter-on-quarter decline in deal volume, falling to 14 in Q1 2020 from 20 in Q4 2019. The fall in aggregate value of these transactions was, however, less precipitous – down marginally to US\$1.02bn from US\$1.06bn – as the sector was buoyed in the first quarter by four top-20 deals. These included the second-largest announced transaction of the quarter, namely the US\$648m acquisition of online real estate portal operator ZAP by Bom Negocio Atividades de Internet, an online classifieds site operator.

A deal involving Brazil's consumer sector was the third largest in Q1 2020, as Japanese groups Daio Paper Corporation and Marubeni Corporation took steps to acquire Santher-Fabrica de Papel Santa Therezinha, a São Paulo-based tissue paper producer, for US\$523m. This is one of five consumer-related transactions to break into the top-20 deals in Q1 overall, and the industry was one of very few not to record a decline in activity from Q4 2019. Consumer deal volume increased by 62.5% to 13 transactions worth almost US\$1.5bn, a more than threefold increase from the previous quarter – though data from early in Q2 indicate that the sector is beginning to suffer the same fate as many others.

Brazil top sectors by value | Q1 2020

	USD (m)
Consumer	1,489
Pharma, Medical & Biotech	1,058
TMT	1,020
Transportation	678
Energy, Mining & Utilities	210

Brazil top sectors by volume | Q1 2020

	Deal count
TMT	14
Consumer	13
Pharma, Medical & Biotech	10
Transportation	8
Business Services	6

Brazil top bidders by value | Q1 2020

	USD (m)
Brazil	2,488
Japan	523
United Arab Emirates	500
USA	499
France	454

Brazil top bidders by volume | Q1 2020

	Deal count
Brazil	50
USA	7
France	3
Japan	2
Germany	1

Business confidence reaches historic low

Exacerbating Brazil's economic crisis is a burgeoning political one. At the end of April, Sérgio Moro resigned from his role as justice minister, alleging that President Jair Bolsonaro was interfering with police investigations. Thereafter, the country's Supreme Court authorized an investigation into the president, who has already in recent weeks come under fire for his response to the coronavirus.

Brazil's benchmark Bovespa stock index collapsed in Q1, from 118,573.1 points at the start of January to a nadir of 63,569.62 on 23 March, a decline of 46.1%.

The index recovered slightly through the early part of Q2, sitting at around 77,000-80,000 points through most of April.

Data illustrating business confidence in Brazil make for even more gloomy reading. The country's business confidence index, published by the Brazilian National Confederation of Industry, fell to 34.5 points in April, the lowest figure in its historical series, from 60.3 in March. The index operates on a 0-100 scale, where figures below 50 denote a lack of confidence.

Brazil top deals, Q1 2020

1

Brazil's largest pharmaceutical company, Hypera, enter into an agreement to acquire a portfolio of Latin American assets belonging to Japan-based Takeda Pharmaceuticals.

US\$825m

2

Bom Negocio Atividades de Internet, an online classifieds site operator, acquired online real estate portal operator ZAP.

US\$648m

3

Highlighting the close ties between Brazil and economies on the other side of the Pacific, Japanese groups Daio Paper Corporation and Marubeni Corporation acquired São Paulo-based tissue paper producer Santher-Fabrica de Papel Santa Therezinha.

US\$523m

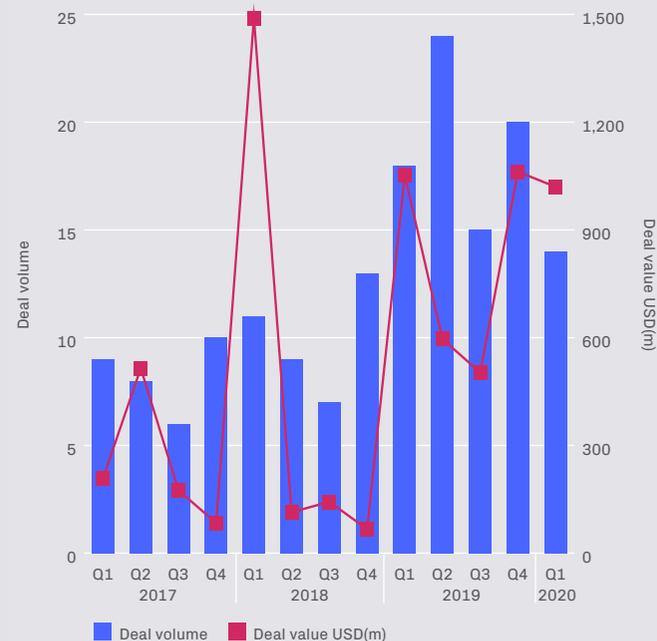
Sector Watch: TMT

Conditions look far from encouraging in Brazil, but this does not mean that dealmaking will be put entirely on pause. Certain industries are expected to be able to endure the challenges posed by the COVID-19 pandemic. TMT, which had been enjoying something of a boom in recent years in Brazil, is one such industry. Start-ups, especially in the burgeoning fintech subsector, have benefitted from rising volumes of venture capital, and it is likely that these companies' capacity for innovation will be in high demand as Brazil works through and eventually emerges from the coronavirus crisis.

Though the TMT space has not been immune to the damage wrought on dealmaking by the pandemic, it has been less adversely affected than other sectors in respect of both number of transactions early in 2020 and the aggregate value of those deals. Moreover, of the four top-20 overall transactions that related to Brazil's TMT space, two involved overseas bidders.



Brazil TMT M&A activity, 2017-Q1 2020



Opportunities still emerging

As other countries around the world recover from the pandemic, more international bidders – both sponsors and strategics – could turn their attention towards attractive Brazilian assets, even if the domestic dealmaking market remains volatile.

Early in Q1, online real estate start-up Loft Holdings raised US\$175m in financing from several PE and venture capital firms, including California-based Andreesen Horowitz and New York-headquartered Vulcan Capital. This was the largest PE deal to be announced in Brazil in the first quarter. Moreover, four of the seven PE deals announced in Q1 concerned the TMT sector, including the top three, all of which involved bidders from the US. Loft intends to use this capital to acquire local targets and accelerate domestic growth, said co-CEO Mate Pencz.

In late March, Swedish cloud communications platform Sinch agreed to combine with Wavy, the Brazilian messaging provider, in a deal worth US\$118m. Not long after, Wavy paused its 'inorganic growth strategy' in the light of the upheaval caused by the coronavirus outbreak, according to Mergermarket reports. However, Wavy also said that public health measures and restrictions on public gatherings in Brazil meant more businesses were turning to online messaging solutions, which would allow the company to increase its client portfolio.

Evidently, even in these troubled times, meaningful opportunities to transact will still emerge in Brazil's TMT space. Despite the challenges posed by COVID-19, in early May it was reported that Brazilian telecommunications giant Telefonica Brasil and TIM, the Brazilian subsidiary of Telecom Italia, intend to make a joint offer to acquire the mobile business of rival firm Oi, Brazil's largest fixed-line carrier. According to reports, Oi expects to raise upwards of US\$2.7bn from the sale.

Brazil top TMT deals, Q1 2020

1

Bom Negocio Atividades de Internet, an online classifieds site operator, acquired online real estate portal operator ZAP.

US\$648m

2

In the largest PE deal of Q1 2020, online real estate startup Loft Holdings raised financing from several international players.

US\$175m

3

Brazilian messaging provider Wavy merged with Sinch, a cloud communications platform headquartered in Stockholm, Sweden.

US\$118m



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About this report

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